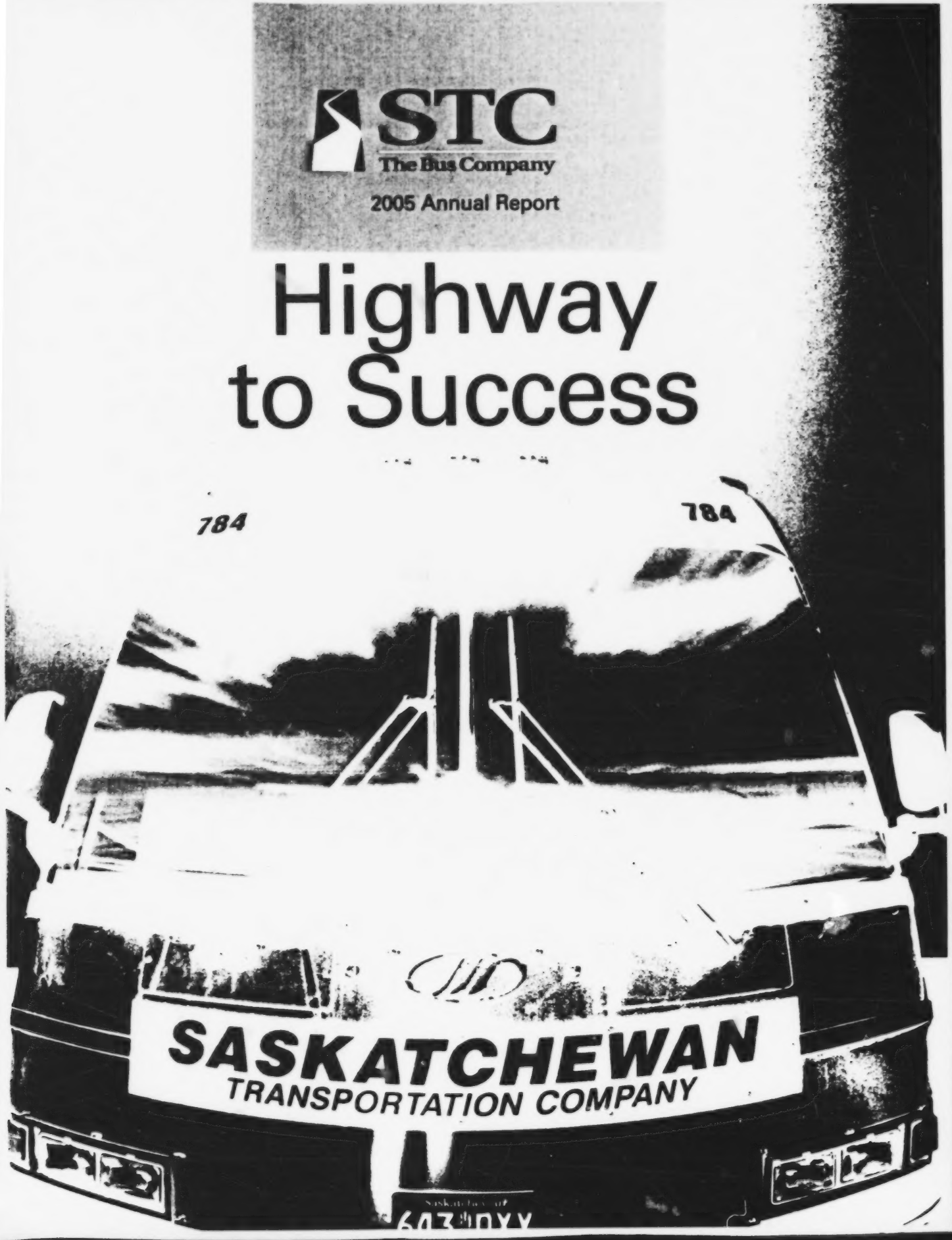
STC
The Bus Company

2005 Annual Report

Highway to Success



STC
The Bus Company

Corporate Mandate

The Saskatchewan Transportation Company is a Crown Corporation of the Province of Saskatchewan. It was established by an Order In Council in 1946. Its operations are governed by its Board of Directors, under the authority of *The Crown Corporations Act, 1993*.

STC is a provincial coach company which provides safe, affordable and accessible bus passenger and freight service to Saskatchewan communities.

Highway

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Letter of Transmittal

Regina, Saskatchewan
March 31, 2006

To Her Honour
The Honourable Dr. L. M. Haverstock
Lieutenant Governor of the Province of
Saskatchewan

Madame:

I have the honour to submit herewith the annual report of the Saskatchewan Transportation Company (STC) for the year ended December 31, 2005, in accordance with *The Crown Corporations Act, 1993*. The financial statements are in the form approved by the Treasury Board and have been duly certified by the Corporation's auditors.

I have the honour to be, Madame,
Your obedient servant,

Eldon Lautermilch,
Minister Responsible for the Saskatchewan
Transportation Company

Report of the Chair of the Board

On several levels, 2005 was a very exciting year for the Saskatchewan Transportation Company and for its Board of Directors.

Of all the milestones at STC in 2005, perhaps none required so much time and energy of both the Board and Management as the planning for a new Regina facility. Regina's passenger depot and head office facility is more than 50 years old. It has outlived its practical use. It has numerous safety and regulatory issues, is too small for the operations it contains, and is an unattractive facility for our customers.

After weighing the options of renovating, rebuilding on the current site or building anew, in 2004 the Board directed Management to pursue the option of a new structure. In the late spring of 2005, approval in principle was given by the Government of Saskatchewan to proceed with planning and land acquisition for this purpose.

Considerable work in this regard was done by STC's management team and, in November, the Board was pleased to recommend to STC's holding company, the Crown Investments Corporation of Saskatchewan, and to the Government of Saskatchewan, that a new facility be constructed on the 1700 blocks of Broad Street and Osler Street, at an estimated cost of $19 million. That recommendation was approved by both bodies within five weeks of the Board's decision.

The new facility will be a welcome addition to that part of the city, and will help to anchor redevelopment in the area. It will be more efficient for STC's operations, will be much more comfortable and safe for our customers, will be fully accessible for persons with disabilities, will be very energy efficient, will provide a safe working environment for staff, and will respond better to traffic patterns in the downtown.

Report of the Chair of the Board

While a lot of work on this project was accomplished in 2005, more must be done in 2006 for the new facility to meet its targeted opening of summer, 2007.

Another priority which was important to the Board in 2005 was further "greening" of the company. Although intercity bus travel is currently the most environmentally-friendly method for travelling from town to town in Saskatchewan, we thought it could be even better.

To that end, the Board approved a proposal to test the use of a biological additive to the diesel fuel used in its buses. The bio-diesel additive was tested on one of STC's 28 runs for a period of about 10 months, but it was found the data for this was not extensive enough to reach a true finding regarding mileage and engine wear. In 2006, the company will use the bio-additive when fuelling all buses originating in, or arriving at, Regina. This will account for some 48 per cent of our fleet.

While we already know that the use of bio-diesel additives will have a positive impact on the environment, as it promotes cleaner-burning of fuels, this test should give STC very solid numbers by which to evaluate the overall cost-effectiveness of the additives.

One final milestone for 2005 which I would like to address, is the one which our Board found the most exciting, the most rewarding, in a year marked by a number of successes. For the first time in 15 years, STC saw an increase in its ridership, rather than a decline.

The bus transportation industry in North America has changed significantly in the past couple of decades, with increased urbanization, increased ownership of automobiles, and the emergence of deep discounting of air fares. In the more densely populated areas it has not been uncommon for intercity bus ridership to increase, while in the less populated areas declining ridership has resulted in the rationalization of routes and schedules. STC did not escape the impacts of declining ridership during this time.

However, in 2004 the decrease in ridership of one-third of one per cent was the lowest decline in 15 years, while in 2005 our ridership actually grew by 3.6 per cent.

In reaching this milestone, STC was undoubtedly helped by some huge increases in the price of gasoline late in the year, as well as a couple of blizzards early in the year. But we also built a business plan for the year based on polling and focus group research done in the spring of 2004, which pointed out ways Saskatchewan people felt we could improve our service.

We incorporated a number of these ideas to make the STC ride a more pleasurable experience. And we built an advertising program, much of it targeted to Seniors and students, which outlined the cost benefits of using our service.

The final important factor was our Centennial Youth Excursion Pass, a program which was developed to assist young people to explore our province during its 100th Birthday. This program was an incredible success, with more than 700 passes sold. In fact, it was so successful that STC will be offering excursion passes again in 2006.

As we move into 2006, the 60th anniversary of STC's establishment, we will be doing everything we can to build on the successes of 2005. We at STC know a lot about highway driving, and we intend to drive the Highway to Success as far as we can.

Janet Folk

Janet Folk
Chair of the Board

Governance, Compliance and Accountability

The Board of Directors of the Saskatchewan Transportation Company believes the company, as a Crown corporation of the Government of Saskatchewan, owes a duty to taxpayers to demonstrate that STC is open, accountable and properly managed.

To that end, this Annual Report follows "best practices" as outlined by such agencies as the Conference Board of Canada and the Toronto Stock Exchange in disclosing relevant information. This report meets or exceeds all the requirements for disclosure as set out for Saskatchewan Crown corporations by the Crown Investments Corporation of Saskatchewan.

In this section, the responsibilities of the Board of Directors are laid out in accordance with the "best practices" for corporate governance, as developed by the Canadian Securities Administrators. In the past, STC has used the "best practices" guidelines of the TSX. The new guidelines follow, generally, the same governance standards, but will require some minor structural changes to the STC Board before full compliance can be achieved. This will be done in the first half of 2006.

Standing left to right: Leo Weaver; Garry Pearce; Ray Clayton, President and CEO; Erin Legg, Corporate Secretary; Cecile Debray; Wally Sotski. Seated l to r: Holly Ann Knott, Vice Chair; Shauna Young; Wayne Timoffee. Missing: Janet Folk, Chair.

Board of Directors

Janet Folk, Chair, Regina, Pensions and Benefits Manager, City of Regina, **unrelated**

Holly Ann Knott, QC, Vice Chair, Saskatoon, Lawyer, **unrelated**

Cecile DeBray, Member, Duck Lake, Manager, Saskatchewan Housing Authority, **unrelated**

Wally Sotski, Member, Yorkton, Business President, **unrelated**

Wayne Timoffee, Member, Prince Albert, Funeral Director, **unrelated**

Leo Weaver, Member, Regina, Motor Coach Operator, STC, ATU representative, **related**

Garry Pearce, Member, Regina, Chartered Accountant, **unrelated**

Shauna Young, Member, Pense, Staffing Consultant, Public Service Commission, Youth Member, **unrelated**

Governance, Compliance and Accountability

Objectives and Principal Duties

1. The function of the Board of Directors is to act as stewards of the Corporation. The Board has a statutory authority and obligation to manage the affairs and business of the Corporation. While the fundamental objective of the Board is to act in the best interests of the Corporation, the Board has a responsibility to ensure congruence between shareholder expectations, Corporate plans and management performance.

2. In discharging its obligations, the Board's principal duties are:
   a) to provide leadership in setting the Corporation's long range strategic direction, and to approve the Corporation's overall strategic plan, operating goals, operating budget, performance indicators and the business plans established to achieve them;
   b) to participate with management in identifying the principal risks of the business in which the Corporation is engaged, to achieve a proper balance between risks incurred and potential returns, to oversee the implementation of appropriate systems to manage the risks;
   c) to appoint, monitor and evaluate the performance of the President and CEO, taking appropriate action as warranted, and to provide for effective succession planning;
   d) to adopt policies and processes to enable effective communication with the shareholder, stakeholders and the public;
   e) to ensure the integrity of the Corporation's internal control and management information systems; and
   f) to develop practices to ensure that the Board functions independently of management.

Legal and Compliance Responsibilities

1. The Board has a responsibility to see that procedures are in place to ensure statutory responsibilities are met, that an effective Corporate compliance program has been established, and that Corporate documents and records are properly prepared, approved and maintained.

Audit and Finance Committee

1. Composition
The committee is made up of four Directors of the corporation, with Garry Pearce as Chair. The other members are Janet Folk, Holly Ann Knott and Wally Sotski. The committee is appointed annually by a resolution of the Board.

2. Objectives
The Committee shall be advisory to the Board and in such capacity shall:
(a) oversee the financial management of STC to ensure the integrity of internal financial processes;
(b) provide relevant and timely financial information to the Board; and
(c) oversee the appointment of the external auditor and ensure proper follow-up of audit results.

Planning, Priorities and Governance Committee

1. Composition
The committee is made up of four Directors of the corporation, with Wayne Lemoffee as Chair. The other members are Cecile DeBray, Leo Weaver and Sheuna Young. Chair Janet Folk is ex-officio. The committee is appointed annually by a resolution of the Board.

2. Objectives
The Committee shall be advisory to the Board and in such capacity shall:
(a) be responsible for, and report to the Board concerning the corporate governance processes of the Board, and the strategic planning processes of the Corporation;
(b) oversee the Corporation's human resource strategies, programs and practices; and
(c) ensure the Corporation is proactive in addressing safety, health and environment issues, and is in compliance with all statutory requirements.

Corporate Governance Guidelines

	Already In Compliance	Change Required for Compliance	No Change In Practice – Additional Disclosure Required
Composition of the Board			
The majority of the board is composed of independent directors.	✗		
The Chair of the board is an independent director. If this is not appropriate, an independent director has been appointed to act as lead director and acts as the effective leader of the board to allow the board to carry out its duties.	✗		
Meetings of the Board			
The independent directors hold regularly scheduled meetings without non-independent directors and members of management being in attendance.		✗	
Board Mandate			
The board has a written mandate outlining its responsibilities.	✗		
This mandate includes responsibility for the following items:			
Satisfying itself as to the integrity of the CEO and other executive officers;	✗		
Ensuring that the CEO and other executive officers create and cultivate a culture of integrity throughout the organization;	✗		
Adopting a strategic planning process which includes the risks and opportunities facing the organization;	✗		
Annual approval of the strategic plan;	✗		
Identification of the principal risks facing the business;	✗		
Ensuring the implementation of systems to manage these risks;	✗		
Succession planning;	✗		
Adopting an effective communications policy	✗		
The internal control and management information systems;	✗		
Developing the organization's approach to corporate governance (i.e. set of principles and guidelines);	✗		
Establishing measures by which stakeholders can communicate with the board; and	✗		
Establishing the expectations and responsibilities of directors.	✗		
Position Descriptions			
The board has developed clear position descriptions of the following:			
Chair of the Board;	✗		
Chair of each board committee; and	✗		
The CEO.	✗		
The board develops/approves the corporate goals and objectives that the CEO is responsible for meeting.	✗		
Orientation and Continuing Education			
The board ensures that all new directors receive a comprehensive orientation which encompasses the following items:			
The role of the board and its committees;	✗		
The contribution (in terms of time and resources) each individual director is expected to make; and	✗		
The nature and operation of the business.	✗		
The board ensures that continuing education opportunities are provided to allow all directors to maintain and enhance their skills and abilities as directors as well as ensuring that their knowledge and understanding of the business remains current.	✗		

Corporate Governance Guidelines

	Already in Compliance	Planning Required for Compliance	No Change to Practice Additional Disclosure Required
Code of Business Conduct and Ethics			
The board has adopted a written code of business conduct and ethics which is designed to promote integrity and to deter wrongdoing, and is applicable to all directors, officers and employees of the organization.	✗		
The code specifically addressed the following issues:			
All conflicts of interest;	✗		
Protection and proper use of corporate assets and opportunities;	✗		
Confidentiality of corporate information;	✗		
Fair dealing practices (with security holders, customers, suppliers, competitors and employees);	✗		
Compliance with legal and regulatory matters; and	✗		
Reporting of illegal or unethical behaviour.	✗		
The board monitors compliance with the code.	✗		
Waivers from the code are solely granted by the board or a board committee.	✗		
Any material departure from the code is considered to be a "material change" within the meaning of National Instrument 51-102 Continuous Disclosure Obligations and is treated as required by this National Instrument.	✗		
Nomination of Directors			
The board has appointed a nominating committee which is composed entirely of independent directors.			✗
The nomination committee has a written charter.			✗
This charter clearly established the following:			
The committee's purpose;			✗
Requirements as to member qualification;			✗
Procedures for member appointment and removal;			✗
Structure of the committee;			✗
Operation of the committee (including authority to delegate to individual members or subcommittees);			✗
Manner of reporting to the board.			✗
The nominating committee has been given the authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.			✗
Prior to nominating or appointing any individuals as directors, the board has adopted processes to consider what competencies and skills the board should possess as a whole, and to assess what competencies and skills each existing director possesses.			✗
Prior to recommending new directors to the board, the nominating committee considers what competencies and skills the board considers necessary for the board to possess as a whole; the nominating committee assesses what competencies and skills the board considers each existing director to possess; and the nominating committee considers the competencies and skills each new nominee will bring to the boardroom.			✗
Attention is given to the personality and other skills of each director, as these contribute to the determination of the boardroom dynamic.			✗
The board considers what is the appropriate size of the board, with a view of facilitating effective decision making.			✗

Corporate Governance Guidelines

	Already In Compliance	Change Required for Compliance	No Change In Practice – Additional Disclosure Required
Compensation			
The board has appointed a compensation committee which is composed entirely of independent directors.			✗
The compensation committee has a written charter.			✗
This charter clearly establishes the following:			
The committee's purpose;			✗
The committee's responsibilities;			✗
Requirements as to member qualification;			✗
Procedures for member appointment and removal;			✗
Structure of the committee;			✗
Operation of the committee (including authority to delegate to individual members or subcommittee); and			✗
Manner of reporting to the board.			✗
The compensation committee has been given the authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.			✗
The compensation committee has assumed responsibility for the following issues:			
The review and approval of corporate goals and objectives relevant to CEO compensation;			✗
The evaluation of the CEO's performance in respect of these goals/objectives;			✗
The determination and recommendation to the board of the CEO's compensation level;			✗
The recommendation to the board of non-CEO officer and director compensation, incentive plans and equity based plans; and			✗
The review of executive compensation disclosure before the issuer publicly discloses this information.			✗
Regular Board Assessments			
The board is regularly assessed regarding its effectiveness and contribution. This assessment considers the board's mandate.	✗		
Each board committee is regularly assessed regarding its effectiveness and contribution. This assessment considers the committee's charter.	✗		
Each individual director is regularly assessed regarding his or her effectiveness and contribution. This assessment considers the individual's position description(s) and competencies and skills they are expected to bring to the board.	✗		

NOTE: The Board's Audit and Finance Committee has general responsibility for compensation, but some small changes to the committee's terms of reference are required to fully match the guidelines.

The Board's Planning, Priorities and Governance Committee has general responsibility for nominations, but some small changes to the committee's terms of reference are required to fully match the guidelines.

2005 Corporate Profile

Established 1946 by Order-In Council; has operated continuously

Serves 275 communities in Saskatchewan

Operates 28 bus routes, travelling about 3.2 million miles per year

Has a fleet of 45 coaches and vans, varying in size from 55-seater to 15-seater, as well as a freight truck and freight trailers

Has 195 agents operating in rural Saskatchewan

Operates passenger and express depots in Regina, Saskatoon and Prince Albert

Operates service garages in Regina and Saskatoon

Maintains its Head Office in Regina

Employs 252 people (199 full-time, 39 part-time and 14 temporary); 225 employees are in-scope, 27 employees out-of-scope. In-scope employees are represented by the Amalgamated Transit Union, Local 1374

Has an annual payroll of $9.2 million

Has assets of $21.2 million (2004 – $19.3 million)

Operating expenditures of $20.3 million (2004 – $18.8 million); Revenues of $14.8 million (2004 – $14.0 million)

Capital expenditures of $3.8 million (2004 – $2.3 million)

Company Facilities:

STC owns and operates passenger and freight depots in Regina, Saskatoon, and Prince Albert. It owns and operates service garages in Regina and Saskatoon. It owns, but does not operate, a passenger and freight terminal in Moose Jaw.

The Saskatoon passenger depot is approximately 31 years old, and the express depot is 28 years old. Regular insurance inspections ensure the facilities are kept in sound structural order. No major maintenance or structural work was done in 2005.

The Regina passenger depot is approximately 53 years old, and the express depot is 29 years old. Both are in need of significant structural and maintenance work. In the spring of 2005, authority was given by the Government of Saskatchewan to begin planning work and land assembly for a new Regina passenger and express depot and head office facility. Final approval of plans and budget was given in December of 2005. Work will begin in 2006.

The Saskatoon garage is 23 years old. No major work was done on the facility in 2005. Regular insurance inspections ensure the facility is kept in sound structural order.

The Regina garage is 57 years old, with major additions done in 1975 and 1989. It was subject to structural repairs in 2004 to the roof, which were completed in 2005. Regular insurance inspections ensure the facility is kept in sound structural order.

The Prince Albert depot is 11 years old. Regular insurance inspections ensure the facility is kept in sound structural order. No major structural or maintenance work was done in 2005, and none is planned for 2006.

The Moose Jaw depot is 10 years old. Regular insurance inspections ensure the facility is kept in sound structural order. No major structural or maintenance work was done in 2005, and none is planned for 2006.

Passenger Services:

This unit is responsible for all aspects of ensuring STC's passengers enjoy a safe and reliable trip. Within this unit are the Motor Coach Operators, Passenger Service Attendants and Custodians, making it STC's largest employee complement. The rural agencies provide services to this unit as well.

Express Services:

This unit is responsible for freight and baggage handling for STC and connector buses, with staff in all three depots. It delivers and receives freight to and from customers. Pick Up and Delivery services are available in Regina, Saskatoon and Prince Albert, as well as some rural agencies.

Maintenance:

The primary responsibility of this unit is the maintenance, cleaning and storage of all company vehicles, which is done in service garages in Saskatoon and Regina. It is responsible for on-the-road servicing of coaches, when required. This unit also provides maintenance, cleaning and storage to coaches of other carriers, done on a contract basis.

Finance:

This unit is responsible for the collection of revenues from customers and the payment of STC's suppliers. It has sub-units for billing, accounts receivable and collections, accounts payable, agencies, and reclaims (billing and paying connecting carriers, such as Greyhound, for services rendered). It is responsible for the company's budgeting, financial forecasting, corporate insurance and internal controls.

Information Systems:

This unit is responsible for the procurement of all corporate hardware and software. It ensures the reliability and integrity of data, electronic communications, software applications and web services to provide staff, customers and partners throughout the province with current, up-to-date computer systems and information.

Human Resources:

This unit handles all staff recruitment and placement, co-ordinates training, and administers compensation and benefit programs. It negotiates the Collective Bargaining Agreement and administers contract compliance between the company and the union. It is responsible for Occupational Health and Safety, anti-harassment programs, employment equity programs, accessibility programs, return to work programs and employee assistance programs.

Strategic Planning and Communications:

This unit is responsible for corporate communications, internally and externally. It is responsible for the preparation of corporate documents such as the Annual Report and Strategic Business Plan. It liaises with other Crowns and government agencies. It is responsible for forward planning and issues management for the company.

Report of the President

Ray Clayton, President and CEO

Here at the Saskatchewan Transportation Company, we have a lot of experience with highways and highway driving.

We know that highways are seldom straight – that they have curves, dips and hills. The Highway to Success is no different. However, in 2005 we figuratively hit a long flat stretch of that highway and we were able to make progress in some key areas.

Most significantly, we saw a reversal of the relentless 15-year trend of reductions in passenger numbers. This trend, driven primarily by rural depopulation, increased competition in the air travel industry and the increased use of private automobiles, has impacted the use of intercity buses across much of Canada.

In 2004, the downward trend slowed to less than one-third of one per cent. In 2005, the number of passengers served by STC actually increased by 9,389, or about 3.6 per cent.

We expect that several factors contributed to this apparent reversal in trend, including our awareness advertising, ongoing efforts to ensure that our coaches are as clean and comfortable as possible, and the increasing costs of gasoline that pointed to the economic advantages of travelling by bus. Perhaps the biggest single factor affecting passenger numbers was our Centennial Youth Excursion Pass program that ran during June, July and August.

This program was primarily intended as a Centennial gift to Saskatchewan's young people to allow them to see the province at a low cost, but we also hoped that the experience of bus travel would encourage those people to continue to use the bus on an ongoing basis. The three month unlimited travel passes were available at a charge of $75 to people in the 15 to 25 year age bracket. About 700 of the passes were sold

STC is considering similar incentive travel passes for youth for 2006.

In accordance with our mandate to provide service on as wide a basis as possible, STC carried 267,385 passengers close to 3.2 million scheduled miles to and from 275 communities.

One of the major initiatives of 2005 which we think will have a positive impact on passenger numbers in the future is the development of a new depot and head office building for Regina. The current facility is quite unattractive, lacks functionality and is deficient from health, safety and accessibility standpoints for both passengers and staff.

Besides addressing these deficiencies, the new facility will exceed national standards for energy efficiency. This is a very important consideration at a time of concern over energy costs and efforts to limit greenhouse gas emissions.

The entire project, including land assembly and preparation, staff and customer parking, furniture and fixtures, landscaping and fees is budgeted at $19 million. The funds will come in the form of a grant from the holding company of STC, the Crown Investments Corporation of Saskatchewan.

We utilized bio-additives for our diesel fuel for the first time in 2005. The anticipated benefits from these additives are increased fuel mileage, reduced engine wear, and reduced exhaust emissions. We utilized the additive on a test basis on one bus run for most of the year. As part of our efforts to promote environmental protection and a green economy, in 2006 we will use these additives in all of our Regina-based buses. This will cover close to 50 per cent of our bus routes, and will give us a better basis upon which to evaluate the relative costs and benefits of the additives for the future.

Charter revenues grew by $185,000 to a total of $610,000 in 2005. This growth was mainly attributable to the Canada Summer Games held in Regina in August, and to events surrounding Saskatchewan's Centennial celebrations.

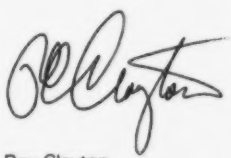
Overall, charters only accounted for about six per cent of our bus mileage in 2005. This limited amount of charter business is, however, important for STC. It enables us to best utilize and maintain our bus fleet, and to enhance awareness of, and promote greater utilization of, our regular scheduled operations. We believe that the amount of charter business done in 2005 is about the limit that STC can profitably undertake in any one year.

STC's revenues grew to $14,828,000 in 2005 from $14,031,000 in 2004. Operating expenditures increased to $20,266,000 from $18,763,000. The main increases in our costs were for salaries and fuel for our buses.

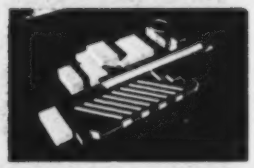
The capital grant increased from $1.9 million in 2004 to $3.9 million in 2005, due mostly to the acquisition of land and some planning costs related to the new depot and head office facility in Regina.

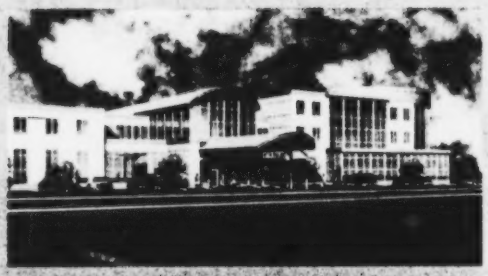
The operating grant subsidy from the Crown Investments Corporation of Saskatchewan was budgeted at $4.1 million for 2005, but the actual amount was only $3.5 million for the year. While our objective is to keep the operating subsidy as low as possible, for many of our routes we do not have enough passengers to cover our costs, and a subsidy is required to enable services to continue.

We need to continue to maintain or improve our services while seeking efficiencies wherever possible. Much work remains to be done, but we feel that in 2005 we have moved a considerable distance down the Highway to Success.



Ray Clayton
President and CEO





Facility:

In 2005, STC received authority to proceed with the construction of a new passenger and freight depot and head office in Regina. Construction will begin in 2006, and will take 12 to 14 months to complete. The entire project is budgeted at approximately $19 million. These architects' renditions show the proposed building, with various outside views as well as a view of the new passenger lobby area.

Statement of Mission

STC offers our customers convenient, affordable, safe, courteous and reliable passenger and express transportation services. We contribute to the province's economic growth, demonstrate social responsibility to its citizens and provide excellent value to our shareholders.

Vision Statement

We are Saskatchewan's standard for transporting people and goods. STC is your first choice, your best choice.

Corporate Values

We at STC believe that we can only do our job properly when we adhere to the following values:

- Honesty in all business transactions, in dealing with our staff, in dealing with our customers and in dealing with our stakeholders
- Dependability, not only in our vehicle operations, but in all facets of the company's work
- Ensuring the safety of our customers and our employees
- Never accepting the status quo as the best possible outcome for our stakeholders; searching for innovative solutions to the problems which arise and taking pride in our accomplishments, while admitting to our mistakes
- Developing a work environment which supports employment equity and offers opportunity for advancement to all employees
- Meeting all targets within our work units and within our corporation

Management Discussion and Analysis

In this MD&A, STC Management will discuss trends in the transportation bus industry in Canada, and will look at the company's three main components – passenger service, freight operations and maintenance - in regards to their operating and financial highlights for the year, the challenges which they faced, how they dealt with them, the challenges and opportunities down the road, and the outlook for future operations. Other facets of the company's operations will be discussed as well.

Industry Overview

In 2004, STC received an operating grant from the government of $3.7 million, which represented some 20 per cent of the company's overall expenses for the year. In 2005, the operating grant received was $3.5 million, or 17 per cent of the company's overall expenses. (The original grant request for the year was $4.1 million, but increased profits from express services and reduced administration costs meant STC did not require the full grant.)

It is not uncommon for public transportation entities in Canada to have a substantial portion of their capital and/or operating costs subsidized by municipal, provincial or federal governments. These subsidies are paid because the respective governments believe that there are overriding benefits to society from the provision of these services.

The magnitude of these subsidies differs considerably from entity to entity. While direct comparisons are difficult because of the varying types of service and mandates of the entities, the subsidy paid to STC would appear to be reasonable. For example, the municipal transit systems in Regina and Saskatoon receive subsidies in the range of 50 to 65 per cent of their costs.

Sally Kinsley
Express Service
Attendant 2
8 years of service

Declining ridership brought about by factors such as rural depopulation and the increased use of the private automobile has been a significant challenge for STC over the past 15 years. However, in 2005 the company had an increase of 3.6 per cent in its passenger numbers.

There are a number of probable reasons for this change in passenger numbers — an advertising program; renewed commitment by the company to ensure clean and comfortable coaches, a youth excursion pass which attracted a lot of new riders, the high cost of gasoline during the latter part of the year, and some severe blizzards in the earlier part of the year.

All in all, 2005 has to be considered a good year for STC.

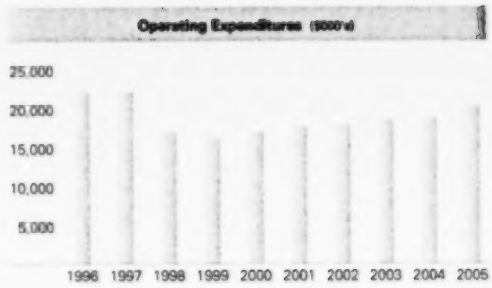
Passenger Services

STC has, far and away, the bulk of the bus passenger business in Saskatchewan.

Greyhound runs two routes through the province (along the TransCanada Highway and along the Yellowhead Highway). There are a number of small, locally-based carriers, serving only specific areas, which inter-line with STC service at the company's depots.

The company runs 28 routes in the province. The extent to which costs are recovered varies considerably from route to route. The company endeavours to match its bus fleet to passenger volumes on various routes. Accordingly, our units range in size from a 15-seat van to a 55-seat coach.

In 2005, STC received a capital grant of $1.45 million for regular capital programs from its stakeholder, the Crown Investments Corporation of Saskatchewan. Of that money, about 62 per cent was designated for the purchase of new buses and freight trailers. As well, the company received an operating grant of $3.5 million to subsidize bus routes that have insufficient passenger numbers to recover costs.



A further capital grant of $2.45 million was received for land acquisition and other costs associated with the new Regina facility.

In 2005, STC operated about 3.2 million miles of bus service in the province, providing connections to 275 communities. It carried 267,385 passengers, an increase of 9,389 from 2004.

The company's cost per mile of carrying passengers was $3.43, and the revenue per mile generated by passengers was $2.20. This represents an average subsidy of $1.23 per mile.

There were no significant changes made to STC's scheduled service in 2005.

In 2005, STC's revenues from passenger service were $7,006,000, compared to $6,682,000 the previous year. This was partially due to increased ridership during the year.

Its operating expenses were $10,924,000, compared to $9,958,000 in 2004. In 2005, STC did not increase its passenger fares.

STC's strengths in the passenger industry are at least three-fold – the fact that it exclusively serves a large portion of the province, its familiarity with the public, and the quality of its staff.

Its major weakness lies in the changing demographics of the province, which results in a shrinking potential marketplace. This is a major contributing factor to the ongoing challenge to maintain ridership.

Opportunities for the company in the bus passenger industry are limited. However, in 2005, STC had considerable success with its Centennial Youth Excursion Pass, a one-time pass purchase that provided unlimited travel for a three-month period. Approximately 700 of these passes were sold. Due to that success, STC hopes to sell excursion passes again in 2006.

STC will continue to examine partnerships with other industries and other sources of revenue to enhance its revenues.

As well, the company undertook an awareness campaign aimed at specific market niches in an effort to preserve, and hopefully grow, its client base.

An ongoing threat to the company's passenger operations lies in the province's changing demographics. Continued urbanization, reliance on private automobiles, and the existence of an extensive highway system will tend to further erode the company's client base.

A major threat facing the passenger service remains the possibility of deregulation of the intercity bus industry in Canada. Should bus service be deregulated, STC would in all likelihood face competition for customers on its profitable routes, while leaving STC to service the routes where passenger numbers are not sufficient for the company to recover its costs.

STC's passenger operations account for 84 full-time in-scope, seven part-time, and four temporary in-scope employees.

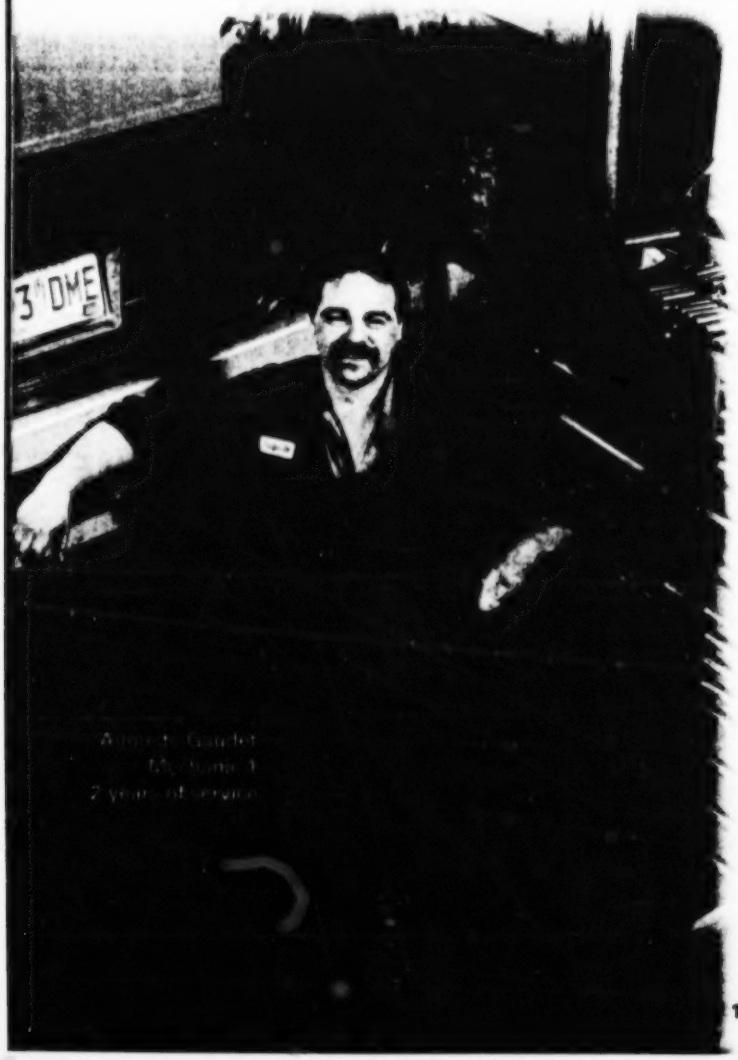
Management Discussion and Analysis

Freight Express Service

STC operates its freight business in a fully-competitive environment. Other bus services, trucking firms and courier services, as well as Canada Post, all offer this service in the province.

In addition to providing overnight depot-to-depot service (in most cases), the company also provides a door-to-door pick up and delivery service in the major centers.

Since its inception, STC has been in the freight hauling business, and will continue to be as long as it is operating buses. The buses have the capacity to carry freight as well as passengers, so it makes sense to do so.



In many rural communities in Saskatchewan, STC has long been the primary carrier of parcels for personal, business, and farm usage.

STC has continued to equip some of its buses with trailers to carry additional freight, which allows the company to increase its hauling capacity and revenue-generating capabilities with only a minimal effect on expenditures.

Freight operations at STC garnered $6,737,000 in revenues for 2005, compared to $6,403,000 in 2004. Expenditures were $4,346,000, compared to $4,414,000 the previous year. That meant a profit of $2,391,000 compared to $1,989,000 the previous year.

Due to the extremely competitive nature of the freight business, STC does not have a lot of room within its tariff schedule for any significant increases. There was a 4.0 per cent increase in freight tariffs in 2005.

STC's greatest strength in the freight business is the synergies it has with the passenger service. Since the buses are running on a large network anyway, with room to carry freight, any additional over-the-road costs to the company for carrying freight are minimal. With the addition of trailers to the buses, this becomes even more of an advantage.

Other strengths of the company are name recognition, and its ability to provide next day delivery throughout much of the province. As well, it is one of the very few delivery systems in the province which provides weekend service to many points in Saskatchewan.

STC is very well suited for the transportation of parcels in the one pound to 30-pound range, which makes up approximately 80 per cent of its freight business. A large portion of this business comes from walk-in customers.

The major weakness of the business is that it is difficult for freight tariffs to keep current with increasing costs. While STC rates are still somewhat below Western Canadian averages for bus parcel express service, some firms have been offering

Management Discussion and Analysis

Parcel Express Services

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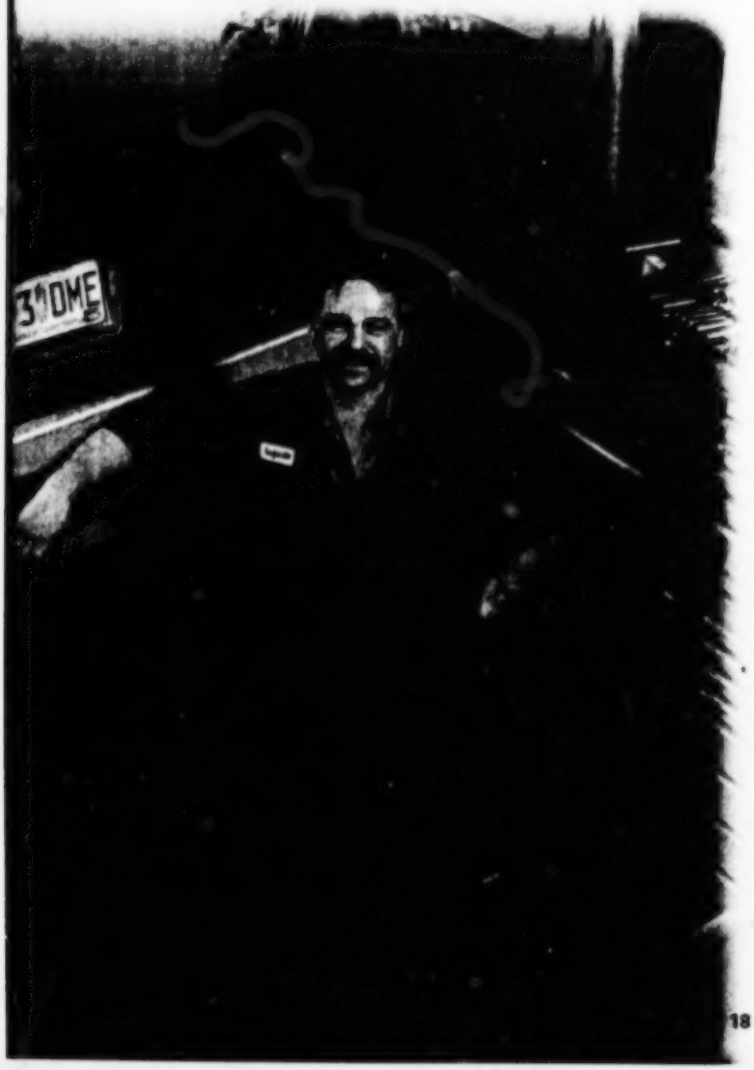

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The major weakness of the business is that it is difficult for freight tariffs to keep current with increasing costs. While STC rates are still somewhat below Western Canadian averages for bus parcel express service, some firms have been offering

deep discounts to attract some major customers away from STC.

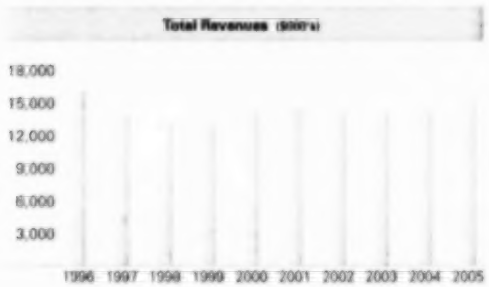
Increasing rates is not a sustainable method for the company to increase revenues. The competitive nature of the express business now fully dictates STC's express rates, and is currently keeping those rates low. Any sharp increases could result in a loss of market share.

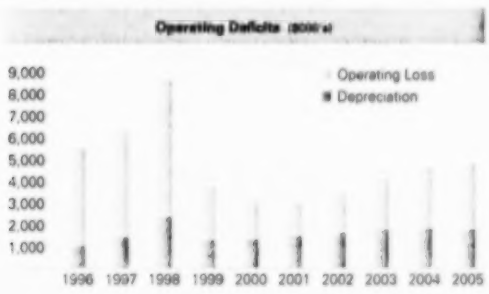
The main threat to STC's express service is deep discount pricing by competitors, which is sometimes difficult for STC to match because of its fixed costs – mostly labour. Another threat, as with the passenger service, is the volatile cost of fuel.

The express component of the business has 37 full-time in-scope and 21 part-time, in-scope, as well as eight temporary in-scope employees.

Maintenance Services

STC operates two service garages in the province, one in Saskatoon and one in Regina. Since 2003, major maintenance work has been consolidated in the Saskatoon garage. The Regina facility still performs minor maintenance and servicing, as well as safety inspections.





Traditionally, STC coaches have had a very high standard of maintenance, both in terms of mechanical reliability and cleanliness.

Because of the size of its facilities and the level of service provided, STC performs maintenance service for a number of other bus operators in the province.

In 2005, maintenance services cost the company $2,526,000 compared to $2,185,000 in 2004. Performing service for other operators brought in $701,000 in revenues, compared to $531,000 in the previous year.

STC's maintenance strength is its staff, with their commitment to safety and quality work. Another area of strength is the homogenous nature of its fleet, which allows for improved training and streamlining of the parts inventory. Its weakness in this area is the need, because of the geographic size of the province, to operate two facilities rather than one.

The maintenance operation has 34 full-time in-scope, 11 part-time in-scope, as well as two temporary in-scope staff.

Other Issues

Other Revenues

STC has limited room for growth in its primary lines of business – passenger and express services. Accordingly, the company looks for ways by which to supplement its revenue base.

One of these ways is providing maintenance, cleaning and storage services to other bus companies. This has proven to be a good source of revenue for a number of years.

There has been noticeable growth in revenues from charter operations. STC does not aggressively pursue charter opportunities and does not advertise the service. The company has neither coaches nor employees specifically designated for charters. However, if STC is approached with the offer of charter work, and if a coach and driver are available, the company will consider taking the contract.

Largely as a result of word-of-mouth promotion by satisfied clients, STC has seen a steady growth in its charter business. In 2005, the company provided 433 charters, bringing in revenues of $610,000, compared to revenues of $425,000 the previous year.

Management Discussion and Analysis

STC does not plan to expand its charter business beyond 2005 levels in 2006 for two main reasons. One reason is that the current level of STC's charter activity optimizes the utilization and maintenance of our bus fleet, and we will not acquire additional buses specifically for the charter business. The other is the availability of private sector carriers to provide the service.

STC sets its charter rates with the intention of having them equal to or greater than the industry norm, and to enable STC to realize a profit on each of them then. The company responds to requests and inquiries from the charter customers, but does not promote or actively seek charter business. Requests for charters that STC is not able to provide are referred to the private sector operators.

The company also leases out excess space, primarily at the Saskatoon garage and Saskatoon depot. In 2005, this activity accounted for revenues of $176,000.

The company is also in the field of bus advertising, which began in 1999. In 2005, revenues raised through bus advertising amounted to $31,400, compared to $58,270 the previous year.

In 2001, STC installed vending devices, specifically automatic banking machines, in its depots as another method of gaining revenues. The revenues from this source amounted to $7,600, compared to $12,000 in 2004.

Regina Facilities
In 2002, the company received the results of a facility audit conducted by the Canadian Human Rights Commission as part of an overall audit of the company's compliance with the Employment Equity Act. This audit found a number of significant deficiencies with the company's passenger depot in Regina, including such things as a lack of an elevator, and wheelchair accessible washrooms.

In order to bring the building up to the standards of the Act, significant changes are required.

Because of this, as well as the overall run-down condition of the Regina depot and head office facility, it was determined that STC would have to extensively renovate or replace its Regina facilities. In 2005, authority was given to go ahead with this project, and construction will begin in the spring of 2006. It is expected to last for 14 months. The total cost of the program, including land acquisition and preparation, building, fixtures, landscaping, utilities, fees and contingencies, is expected to amount to $19 million. This money will be made available to STC by way of a grant from its holding company, the Crown Investments Corporation of Saskatchewan.

Other Facilities
As well as the Regina depot and express operations, STC has a garage in Regina, a garage in Saskatoon, and depots and express operations in Saskatoon, Prince Albert and Moose Jaw. All facilities receive regular insurance inspections. No large expenditures were made on maintenance of these facilities in 2005.

Environmental Impact
As a transportation company, STC's primary impact on the environment can be seen in any of three places – the consumption of fossil fuels, the storage

Ken Wykes
Motor Coac
Operator
2 years of
service

of such fuels, and the handling of hazardous materials.

STC has in place an approved dangerous goods handling policy, and its fuel storage is up to Code.

To help lessen harmful emissions from fuel consumption, STC has been rebuilding its fleet over the past six years. The company also plans to expand a pilot project using bio-diesel additives in 2006.

In 2005, STC was in compliance with all relevant environmental statutes and regulations.

Fuel Costs

The cost of diesel fuels increased significantly in the summer of 2005, became a major issue for the STC for the remainder of the year.

STC had budgeted 65 cents per litre for diesel in 2005, but by the end of the year was spending 86 cents per litre. This contributed significantly to the company's increased costs in 2005. The 2006 budget, which was developed in September, forecast fuel costs at 80 cents per litre, but some subsequent projections predicted costs as high as $1 per litre. STC is planning increases to its passenger and freight tariffs to deal with increased fuel costs.

Financial Status

STC is subsidized by grant funding for its operations with respect to passenger services. The company remains debt-free.

Capital grants received from Crown Investments Corporation of Saskatchewan (CIC) in 2005 were $3.9 million, compared to $1.9 million in 2004. About $1.0 million of the capital grant received in 2005 was allocated to purchase fleet assets. A large portion of the grant was directed towards costs associated with the new Regina facility.

It is anticipated that STC will require $10.7 million in capital grants in the year 2006, the bulk of which is required for the new Regina facility.

In 2005, STC received $3.5 million in operating grants from CIC to fund part of its operating shortfall with respect to passenger operations.

The remaining funds needed to operate STC's passenger services are generated internally from non-passenger operations.

STC anticipates that it will require $5.0 million in operating grants in the year 2006. The increase in grants is almost entirely attributable to the increases in fuel and staff costs.

The Finance department has 15 full-time in-scope employees and no part-time in-scope employees.

Because of its operating mandate to provide service on the widest possible basis, STC continues to incur yearly net cash losses. As a result, STC did not pay a dividend to CIC in 2005, and does not expect to pay one in 2006.

Wes Riegel
Custodian
21 years of service

Public Policy and Financial Integration

The Saskatchewan Transportation Company is a Crown corporation of the Province of Saskatchewan, under the auspices of the Crown Investments Corporation of Saskatchewan, the province's holding company.

The CIC Board of Directors, who are all members of the Executive Council of Government, represents the interests of the ultimate stakeholders, the people of Saskatchewan. A Member of Executive Council has responsibility directly to the public for the operations of STC and sits on the CIC Board of Directors.

CIC, in consultation with the Crowns, has developed a long-term strategic plan and a method of evaluation.

STC is in full support of both the strategic objectives and of the evaluation methodology used by CIC. The company feels this is the best method available to not only ensure that it is meeting its social obligations to the people of Saskatchewan, but is also as transparent as it can be in terms of where it is and where it is going as a corporation.

The strategic plan sets out five objectives for a Crown corporation that are to be part of its business and strategic planning. The five objectives are:

1. **Customer:**
   - To exceed customer expectations for products and services.
2. **Financial Health:**
   - To help position the entire Crown sector to prosper.
   - To provide a return to the people of Saskatchewan that justifies the shareholder risk and investment in the overall sector.
3. **Mandate and Role:**
   - To incorporate the Crown sector's mission into each corporation's mandate and role.
   - To strive to balance accountability with each corporation's need to operate in a commercially competitive environment.
4. **Public Purpose:**
   - To strive to ensure access to reasonably and competitively priced sector products and services on an equitable basis that might not otherwise be available to all or some of Saskatchewan's residents.
   - To contribute to social, economic and environmental public policies of the Government of Saskatchewan, including: economic diversification and growth; representative workforces; skills training and development; technical innovation and developments and, environmental responsibility and stewardship.
5. **Human Resources:**
   - To align human resources processes and practices to best deal with emerging sector-wide issues and to support achievement of individual Crown corporation strategies.

Financial Integrity -- The First Consideration

A Saskatchewan Crown corporation is, by definition, a business entity. It provides a service, for which it charges a fee. This is as true with STC as it is with any of the other CIC Crowns.

As a business, a primary concern of STC has to be its financial integrity. The corporation must ensure that the shareholders – the people of Saskatchewan – are getting the best possible value for the money invested.

In most business operations, this is measured by return on investment. In the case of Saskatchewan's Crown corporations, this is often reflected in the dividend paid to the holding company, CIC, by the various Crowns.

STC is an obvious exception to this. As the company does not make a profit, but rather receives a subsidy, it cannot pay dividends. Because the corporation is seen as a valued contributor to Saskatchewan society, its continued success is not judged solely on financial performance.

The indicators of STC's financial integrity are, therefore, different from most other Crowns. STC is evaluated on the amount of subsidy it receives (whether it is as low as possible), and by the value it gets for the money injected into its operation (whether the taxpayers are getting their money's worth for the subsidy they pay, and whether STC is spending the money prudently).

Public Policy -- The Second Consideration

As the Government of Saskatchewan defines a Crown corporation, it must be more than just a successful business endeavor; it must also serve a purpose in enhancing the quality of life in the province in a number of areas.

These areas are many and varied, including, but not limited to: providing a public service which would not otherwise be available; providing a necessary service at the lowest possible cost to the consumer; providing employment and employment training opportunities; providing employment equity opportunities; promoting the growth of local businesses and the economy; promoting safe and harmonious workplaces; promoting technological awareness in the workforce; and providing stewardship of the environment.

In essence, then, the corporation must not allow bottom line considerations to outweigh these other important aspects.

Each corporation, depending on such factors as its line of business and its competitive outlook, will take a different approach to attaining public policy goals.

STC, because of its financial constraints, is more challenged than other Crowns in terms of meeting its public policy purpose, but must comply with the overall direction nonetheless.

Integration

Integration of these two important aspects of a Crown's business is through the Performance Management Document, a contract drawn up each year by the Crown, in consultation with CIC.

This Performance Management Document forms the foundation on which a Crown corporation builds its annual strategic plan and annual business plan. In essence, the corporation designs its operations towards the fulfillment of the Performance Management Document.

The core of the Performance Management Document is the Balanced Scorecard, a reporting technique used to evaluate the Crown's planning process and its success in moving toward the goals it has set out.

This Balanced Scorecard, divided into quadrants, sets out a general purpose, plus specific targets in moving a corporation to that purpose, and the specific measuring devices to judge the corporation's success in its actions.

STC's Balanced Scorecard for 2005, including year-end results, as well as the 2006 targets, is set out below. There are some minor changes between the 2005 and 2006 scorecards:

Balanced Scorecard

We Meet the Needs of Our Customers

Objective	Measure	2005 Goals	2005 Actual	2006 Goals
Our customers are satisfied with the service they receive	Survey results	84% good or excellent rating	86%	85% good or excellent rating
We ensure our customers enjoy a safe environment	At-fault injuries caused	0	0	0
Our fares and discounts are competitive and satisfactory to our customers	Passenger survey results re: fares and discounts	75% average or better	80%	75% average or better
	Compared to Western Canadian industry average	3.5% below average	3.49%	3% below average
Our staff and partners are trained to provide good quality customer service	Customer service training – number of staff trained:	40	37	60
	Increase in customer satisfaction – survey	1%	11%	1%
	Agency meetings - number of agents met with:	40	40	40
Our routes serve a significant portion of rural Saskatchewan	Minimum miles traveled	3.1 M	3.1M	3.2 M
All of our customers deserve the most comfortable ride possible	Coaches equipped for wheelchair accessibility – percentage of fleet:	21.7%	21%	20.0%
We take seriously what our customers say	Response time on customer complaints/inquiries and Ministerial referrals	5 days	11 days	5 days
We take seriously what the community says	Interest group meetings – number per year:	4	4	4

We Are A Good Corporate Citizen

Objective	Measure	2005 Goals	2005 Actual	2006 Goals
We support development of the Saskatchewan economy, particularly the rural economy	Minimum number of agents	195	195	195
	Minimum number of Communities served	275	275	275
	Buy Saskatchewan – percentage of expenditures:	71%	86%	71%
We support creating job and career opportunities for youth and Aboriginal	Help develop career training opportunities in the bus passenger industry – number of opportunities pursued:	1	2 Gradworks Internships - 1 intern returned to school	1
We support development of e-commerce in the province	Web page – number of unique views	32,000	65,054	34,000
	Point of Sales/Billing technology	Develop and implement training program for front-line staff	STC is exploring a new system	Evaluate new technical options
We support development of a representative workforce in the province	Percentage of new hires from federally-designated groups	40%	46.2%	40%
	2005-Percentage from each of four provincial target groups (% of new hires)	Women 25%; Aboriginal 15%; Visible minority 2%; Persons with disabilities 8%	Women 23.1%; Aboriginal 15.4%; Visible minority 4.6%; Persons with disabilities 3.1%	
	2006 - Percentage from each of four provincial target groups (% of new hires)			Women 25%; Aboriginal 15%; Visible minority 2%; Persons with disabilities 8%
	2006-Percentage from target groups in overall workforce			Women 23%; Aboriginal 11%; Visible minority 3%; Persons with disabilities 10%

Balanced Scorecard

We Are A Fiscally Responsible And Accountable Company

Objective	Measure	2005 Goals	2005 Actual	2006 Goals
We live within the grants given us by our stakeholders	Operating grant	$4.1M	$3.5M	$5.0M
	Capital grant	$1.7M	$3.9M	$10.7M
We keep our operating costs as low as possible	Subsidy per mile	$1.23	$1.23	$1.46
We look for non-traditional forms of revenue	Charter revenues – percentage increase:	5%	43.4%	4%
	Other revenues – percentage increase:	2%	8.3%	n/a for 2006
We ensure our equipment is right-sized by route	Average peak passenger volume per route as compared to the size of equipment used	76%	76%	n/a for 2006
We meet or exceed all financial reporting requirements	CIC disclosure requirements for Annual Report	Meet or exceed	Met	Meet or exceed
	Reported comments from External and Provincial Auditors regarding our financial statements	Positive comments only	Positive comments only	Positive comments only
We meet all requirements placed on the company through laws, the legislature or our holding company	Citations from those in a position of oversight (i.e.: Provincial Auditor)	No more than 1 per year	0	No more than 1 per year

We Are A High-Quality Employer

Objective	Measure	2005 Goals	2005 Actual	2006 Goals
We are an employer of choice in Saskatchewan	Employee satisfaction surveys	5% growth in employee satisfaction	Survey every 2 yrs - 2006	Conduct employee survey
	Unsolicited resumes received	45	200	90
	Web site hits on employment section	Establish database	5,700 hits	2,500
We support fair and equitable compensation for employees	Pay equity (job evaluation)	Review/revise job evaluation plan	No agreement with Union	Management/ Union negotiations to continue
We work to promote a safe workplace	Workplace safety records – decrease in lost time accidents:	5%	19% increase	5%
We believe in career enhancing training for our employees	Safety training – number of staff trained	35	75	70
	Customer service training – number of staff trained:	40	37	60
We enjoy a positive, productive relationship with ATU Local 1374	Effective CBA in place	yes	CBA in place	yes
	Number of grievances resolved before arbitration	95%	100%	95%
	Number of functioning joint management/union committees	7	6	7

Balanced Scorecard

We Are Improving And Innovating

Objective	Measure	2005 Goals	2005 Actual	2006 Goals
We believe in growing our business operations within the public sector	Total annual contracts entered into with other public agencies	2	2	3
We believe in growing our business operations within the private sector	Total agreements/ partnerships with provincial attractions; other transportation services and/or private businesses	2	3	3
We support building our future by protecting our environment	Develop "green" fuel policy	Research alternatives and equipment needs	Enlarging pilot project	Evaluate pilot project and implement decision
	Newer, more fuel efficient coaches – average age in years:	7.0 - 7.5	7.0	7.0 - 7.5
Our Depots and Agencies are clean and inviting premises	Yearly customer surveys on service satisfaction	75%	78%	75%
	Yearly customer surveys on cleanliness	75%	60%	75%

Explanation of Significant Variances:

1. Customer satisfaction is up substantially from the previous year. However, the numbers for 2004 are seen as a statistical anomaly, and the numbers for 2005 are much more in keeping with STC's historical satisfaction rating.

2. Operating grant for 2005 is $600,000 less than originally budgeted, primarily due to increased express profits and reduced administration costs.

3. Capital grant is $2.2 million above the original budget. This includes later approved grants regarding land acquisition and expenses regarding the new Regina facility.

Passages

In the year 2005, the STC family decreased in number. While these passages were a time of celebration for the individual, the company will miss their presence.

Retirees:

Bill Alderton: Express Service Attendant 1, Regina, retired August 11, 2005, with 14 years of service

Jerry Beblow: Motor Coach Operator, Regina, retired September 30, 2005 with 35 years of service

Gary Granat: Motor Coach Operator, Regina, retired September 30, 2005, with 24 years of service

Stan Meyers: Service Attendant, Regina, retired December 31, 2005, with 32 years of service

Harold Pierce: Motor Coach Operator, Regina, retired December 31, 2005, with 27 years of service

Senior Management

Saskatchewan Transportation Company

Head Office:
2041 Hamilton Street
Regina, Saskatchewan
S4P 2E2
Phone: (306) 787-3347

www.stcbus.com

President and CEO — **Ray Clayton**

Chief Financial Officer — **Shawn Grice**

Senior Director — **Nial Kuyek**
Customer Services and Operations

Director — **Ingrid Reid**
Human Resources and Labour Relations

Director — **John Millar**
Communications and Strategic Planning

Director — **Richard Baker**
Information Systems

Manager — **Dean Madsen**
Business Development and Operations (South)

Manager — **Harold Matthies**
Operations (North)

Manager — **Carl Clark**
Maintenance

If you would like additional copies of this report, please contact Janet Abells at (306) 787-3412, or e-mail jabells@stcbus.com.

This document can be viewed at the STC website: www.stcbus.com

Saskatchewan Transportation Company
Financial Statements

December 31, 2005

[redacted]

Management's Responsibility for Financial Reporting

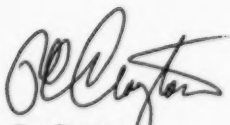
Management has prepared the financial statements of the Company in accordance with Canadian generally accepted accounting principles. The financial data included elsewhere in this report is consistent with the financial statements and the underlying information from which the Company prepared these financial statements.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfil this responsibility, the Company maintains appropriate systems of internal controls, policies and procedures. These systems provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Company.

Meyers Norris Penny LLP, the Company's external auditors, have examined the December 31, 2005 financial statements, and their report follows.

The Board of Directors of Saskatchewan Transportation Company has examined and approved the statements.

On behalf of the Company,



Ray Clayton
President & CEO

Shawn Grice
Chief Financial Officer

February 3, 2006

MEYERS NORRIS PENNY LLP

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of **Saskatchewan Transportation Company** as at December 31, 2005 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Saskatchewan Transportation Company as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
February 3, 2006

Meyers Norris Penny LLP

Chartered Accountants

Statement of Financial Position

As at December 31

	2005	2004
	(Thousands of Dollars)	
ASSETS		
Current		
Cash	$ 1,157	$ 1,155
Accounts receivable	1,686	1,499
Inventories	353	326
Prepaid expenses	104	151
	3,300	3,131
Property, plant and equipment *[note 5]*	17,888	16,172
	$ 21,188	$ 19,303
LIABILITIES AND PROVINCE'S EQUITY		
Current		
Accounts payable and accrued liabilities	2,383	2,460
Deferred capital grant *[note 6]*	8,993	8,495
Province of Saskatchewan's Equity		
Retained earnings	9,812	8,348
	$ 21,188	$ 19,303

See accompanying notes

On behalf of the Board

Director

Director

Statement Of Operations And Retained Earnings

Year ended December 31

	2005	2004
	(Thousands of Dollars)	
REVENUE		
Express services	$ 6,737	$ 6,403
Passenger services	7,006	6,682
Other revenues	1,097	946
Loss on disposal of property, plant and equipment	(12)	-
	14,828	14,031
EXPENSES		
Operating	15,716	14,572
Administration	2,598	2,481
Amortization	1,952	1,710
	20,266	18,763
Loss before the following	(5,438)	(4,732)
Operating grant *[note 7]*	3,500	3,700
Capital grant *[note 6]*	1,290	978
Net loss	(648)	(54)
Retained earnings, beginning of year	8,348	8,402
Grant funding recognized related to purchase of land and related costs *[note 6]*	2,112	-
Retained earnings, end of year	$ 9,812	$ 8,348

See accompanying notes

Statement Of Cash Flows

Year ended December 31

	2005	2004
	(Thousands of Dollars)	
OPERATING ACTIVITIES		
Net loss	$ (648)	$ (54)
Items not involving cash:		
Amortization	1,952	1,710
Loss on disposal of property, plant and equipment	12	-
Recognition of capital grant	(1,290)	(978)
Net change in non-cash working capital *[note 9]*	(244)	248
Cash provided by (used in) operating activities	(218)	926
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(3,755)	(2,275)
Proceeds on disposal of property, plant and equipment	75	22
Cash used in investing activities	(3,680)	(2,253)
FINANCING ACTIVITIES		
Capital grant received	1,450	1,900
Grant funding received for acquisition of land and for construction costs related to the new Regina head office and depot	2,450	-
Demand loan repayment	-	(300)
Cash provided by financing activities	3,900	1,600
Increase in cash	2	273
Cash, beginning of year	1,155	882
Cash, end of year	$ 1,157	$ 1,155

See accompanying notes

Notes to Financial Statements

Year ended December 31

1. STATUS OF THE COMPANY

The Saskatchewan Transportation Company [STC; the Company] was originally established in 1946 by Order in Council #168 to act as a common carrier providing passenger service transportation, parcel express and freight services. The Company's powers, duties and conditions were affirmed in 1993 by Order in Council #5. The Company is continued under *The Crown Corporations Act, 1993*.

The accounts of the Company are consolidated in the annual financial statements of Crown Investments Corporation of Saskatchewan [CIC].

The Company is a Provincial Crown Corporation and therefore not subject to federal or provincial income tax.

The Company's passenger rates are subject to rate regulation by the Motor Carrier Committee of the Saskatchewan Highway Traffic Board. The committee reviews applications for operating authority certificates under the Motor Carrier Act, and fixes rates and conditions of carriage for holders of these certificates or licenses of authority. STC holds operating authority on the routes it operates; but must seek approval for passenger rate changes from the Motor Carrier Committee.

2. OPERATIONS AND FINANCING

In 2000, STC received cabinet direction with regard to its mandate. Under that direction, STC will continue to provide bus passenger and express service to the communities of Saskatchewan. STC will ensure that its commitment to servicing the province is kept uppermost in all of its planning, even though the Company has been given flexibility to adjust service delivery levels to keep the Company strong.

STC continues to be dependent upon CIC for its funding as a result of the non-commercial routes operated by the Company. By way of Orders in Council #858/2004 and #859/2004 the Company was authorized to obtain grant funding up to $5,800 thousand [2004 - $5,900 thousand, Orders in Council #15/2004, #16/2004 and #721/2004] in total for both capital and operating requirements excluding capital funding related to the new Regina head office and depot. During the year, the Company requested and received $4,950 thousand of the $5,800 thousand authorized [2004 - $5,600 thousand and $5,900 thousand respectively].

By way of Orders in Council #568/2005 and #906/2005 the Company was authorized to obtain grant funding up to $19,000 thousand for the acquisition of land and for construction costs related to the new Regina head office and depot. During the year, the Company requested and received $2,450 thousand of the $19,000 thousand authorized.The remaining $16,550 thousand will be requested as needed during the new facility project.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.The significant policies are as follows:

Inventories

Inventories of vehicle parts and supplies are stated at the lower of average cost and replacement cost.

Notes to Financial Statements

Year ended December 31

Property, Plant and Equipment
Property, plant and equipment are stated at cost less accumulated amortization. Assets held for sale are segregated and no longer amortized and are recorded at carrying amounts that approximates fair value. Expenditures for betterments, such as major refurbishment and structural repairs, are capitalized. Normal maintenance, such as engine and drivetrain repairs, mechanical repairs and preventative maintenance are expensed as incurred.

Operating Grant Revenue
Operating grants from CIC are recognized as revenue when received.

Capital Grant Revenue
Capital grants related to depreciable property are deferred as received and are recognized as revenue over the life of the asset. The Company recognizes a portion of the capital grant as revenue each year equivalent to the amount of amortization recognized on the assets acquired with the grant funds.

Revenue Recognition
Passenger and freight transportation revenue is generally recognized upon the completion of service. Interline passenger and freight transportation service is treated as being complete when the passenger or parcel is turned over to the connecting carrier.

Other revenues, including charter, space leasing, bus advertising, vending, and maintenance, are recognized when earned.

Amortization
Amortization is provided from the date assets are put into service and is recorded on the straight-line basis at rates designed to amortize the cost of property, plant and equipment over their estimated useful lives after considering salvage values.

Estimated useful lives are as follows:

Buildings	10 to 40 years
Vehicles	5 to 15 years
Other equipment	3 to 10 years

Management Estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Amortization is based on the estimated useful lives of property, plant and equipment. These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

Year ended December 31

4. FINANCIAL INSTRUMENTS

Fair Value

The Company as part of its operations carries a number of financial instruments which includes cash, accounts receivable, and accounts payable and accrued liabilities. The carrying amount of the Company's financial instruments approximates their fair value due to the short-term maturities of these items.

Credit Risk

The Company is exposed to credit risk in the event of non-performance by customers, but does not anticipate such non-performance. The Company monitors the credit risk and credit rating of customers on a regular basis. The maximum credit risk is the fair value of the accounts receivable.

5. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2005 Net Book Value	2004 Net Book Value
			(Thousands of Dollars)	
Land	$ 4,014	$ -	$ 4,014	$ 1,902
Buildings	10,952	6,205	4,747	4,756
Vehicles	15,081	6,836	8,245	8,635
Other equipment	5,815	4,971	844	791
	$ 35,862	$ 18,012	$ 17,850	$ 16,084
Assets held for sale	502	464	38	88
	$ 36,364	$ 18,476	$ 17,888	$ 16,172

At December 31, 2005, the Company has assets that are no longer in service and are held for sale. The carrying amount of these assets approximates fair value and has been segregated above.

Capital expenditures incurred during the year totalling $213 thousand for costs related to the new Regina head office and depot are included in buildings. These costs will not be amortized until the new facility is in use.

Year ended December 31

6. CAPITAL GRANT

Order in Council #858/2004 authorized the Company to obtain grant funding up to $1,700 thousand for capital requirements not including capital requirements related to the new Regina head office and depot in 2005. During the year, the Company obtained $1,450 thousand [2004 - $1,900 thousand, Order in Council #15/2004] from CIC.

Orders in Council #568/2005 and #906/2005 authorized the Company to obtain grant funding for the acquisition of land and for construction costs related to the new Regina head office and depot up to $19,000 thousand. During the year, the Company obtained $2,450 thousand from CIC, of which $2,112 thousand was used for the acquisition of land. The entire portion of the grant related to the acquisition of land and related costs is recognized as a direct increase in retained earnings.

Deferred capital grant consists of the following:

	2005	2004
	(Thousands of Dollars)	
Deferred capital grant, beginning of year	$ 8,495	$ 7,573
Capital grant received	1,450	1,900
Grant funding received for acquisition of land and for construction costs related to the new Regina head office and depot	2,450	-
Grant funding for land recognized	(2,112)	-
Capital grant revenue recognized	(1,290)	(978)
	$ 8,993	$ 8,495

Contained in STC's cash balance at year end are capital grant funds of approximately $189 thousand [2004 - $11 thousand] reserved for payment of capital accounts payable and future capital purchases.

7. OPERATING GRANT

Order in Council #859/2004 authorized the Company to obtain grant funding up to $4,100 thousand for operating requirements in 2005. During the year, the Company obtained $3,500 thousand [2004 - $3,700 thousand, Order in Council #16/2004 and #721/2004] from CIC.

8. PENSION PLANS

The Company participates in two pension plans. One is a defined benefit plan established pursuant to the Public Service Superannuation Act and administered by the Public Employees Benefits Agency.The Company's contributions to this plan which were expensed during 2005 were $44 thousand [2004 - $52 thousand]. The other is the Capital Pension Plan which is a defined contribution plan administered by CIC. The Company's contributions to this plan which were expensed in 2005 were $457 thousand [2004 - $438 thousand]. All eligible employees hired after September 1, 1980 are participants in the defined contribution plan.

The Company's financial obligation to each plan is limited to making regular payments to match the amounts contributed by the employees for current service.

Year ended December 31

9. NET CHANGE IN NON-CASH WORKING CAPITAL

	2005	2004
	(Thousands of Dollars)	
Decrease (increase) in:		
Accounts receivable	$ (187)	$ (184)
Inventories	(27)	(4)
Prepaid expenses	47	(21)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(77)	457
	$ (244)	$ 248

10. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown Corporations, departments, agencies and boards and commissions related to the Company by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions, and amounts outstanding at year end, are as follows:

	2005	2004
	(Thousands of Dollars)	
Accounts receivable	$ 225	$ 155
Accounts payable	83	108
Express revenues	594	486
Other transportation services revenues	476	486
Operating and administration expenses	1,417	1,478

In addition, the Company pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other transactions and amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

11. PURCHASE COMMITMENT

During 2005 the Company committed to purchase one 18 passenger coach for $101 thousand and two medium trailers for approximately $26 thousand. These assets are expected to be delivered in the first quarter of 2006.

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

STC
The Bus Company